

**VIRGINIA STATE UNIVERSITY
PETERSBURG, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Virginia State University for the year ended June 30, 1999, found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in the internal control structure, however, we did find certain matters that we consider reportable conditions;
- instances of noncompliance that are required to be reported; and
- corrective action of prior audit findings, except for the findings listed on page 3 and detailed on pages 4 and 5.

Our audit findings include the following issues that we explain in detail in the section, "Internal Control and Compliance Findings and Recommendations." The University should:

- increase efficiency through better use of the financial reporting system; and
- strengthen procedures in its Office of Information Technology to reduce the risk of unauthorized access to information and protect its information technology resources.

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UNIVERSITY OFFICIALS



Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

May 12, 2000

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia State University

We have audited the accounts and records of **Virginia State University** as of and for the year ended June 30, 1999, and submit herewith our complete reports on financial statements and compliance and internal controls over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Virginia State University as of June 30, 1999, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. The financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia State University as of June 30, 1999, and the changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying "Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund

Balances” is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia State University as of and for the year ended June 30, 1999, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. We also determined the status of audit findings contained in our prior report.

Compliance

As part of obtaining reasonable assurance about whether the University’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the section entitled, “Internal Control and Compliance Findings and Recommendations.”

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section titled, “Internal Control and Compliance Findings and Recommendations.”

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Status of Prior Findings

The University has not taken adequate corrective action with respect to the previously reported findings listed below. Accordingly, we included these findings in the section entitled, "Internal Control and Compliance Findings and Recommendations."

- Increase Efficiency through Better Use of the Financial Reporting System (Formerly Improve Reconciliation Process)
- Complete Implementation of Information Security Program
- Develop a Business Plan for Auxiliary Enterprises
- Reconcile Financial Aid Programs
- Establish Refund Policy for Unofficial Withdrawals

The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors, audit committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 19, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Increase Efficiency through Better Use of the Financial Reporting System

We identified several areas where management could improve operating efficiencies through better use of the University's financial reporting system. First, Financial Reporting closes the fiscal year in the financial reporting system before completing the posting of year-end adjusting entries. As a result, Financial Reporting posted over 100 adjusting journal entries using automated spreadsheets after the close of the University's financial reporting system for fiscal year 1999.

In addition, the University's reconciliation process is very inefficient. It takes staff up to three weeks to complete monthly reconciliations. The inefficiency of the reconciliation process comes from the high volume of reconciling items. Most reconciling items arise from the University's use of an outdated Commonwealth Accounting and Reporting System (CARS) interface and timing or other valid differences that the system cannot easily identify.

Also, voucher numbers created by the Accounts Payable module do not appear in the Financial Accounting module. This makes identification of the reconciling items in the expenditure reconciliation extremely difficult and labor intensive.

The General Accounting Office did, however, make improvements in the reconciliation process in fiscal year 1999 by including summary pages, which made understanding the reconciliations easier. General Accounting did not substantially complete the June 30 cash reconciliation until October. There was a \$35,475 difference that remained unresolved until April 2000. This delay was again due to the large number of reconciling items.

We also found numerous keying errors and resulting correcting journal vouchers. While the University caught these errors, management needs to determine why the errors occurred and take steps to prevent these mistakes from occurring. Prevention of errors would significantly reduce the number of correcting journal entries.

Financial Reporting should work with the Office of Information Technology (OIT) to identify ways to improve the functionality of FRS Plus. Financial Reporting should extend the date of the final FRS close for the fiscal year or determine a way to run two fiscal years simultaneously. This would allow General Accounting to input data to current year financial records and Financial Reporting to post adjusting entries directly to the financial reporting system rather than on spreadsheets. OIT should update the CARS interface and develop a mechanism that would easily identify timing or valid differences. In addition, OIT should update the Financial Accounting module of the financial reporting system to include voucher numbers. These improvements, and any others identified by Financial Reporting, would help to ensure a more efficient and less time consuming financial reporting process.

Complete Implementation of Information Security Program

The University has not completed the implementation of an information security program appropriate for its information technology environment. The Council on Information Technology Resource Management Standard 95-1 requires that such a program include:

- A business impact analysis that identifies the University's sensitive information systems;
- A risk assessment that identifies the risks to the sensitive information systems and countermeasures required to reduce risks to an acceptable level;
- A contingency management plan that provides for the continuation of critical business functions in the event of disruptions or disasters;
- Implementation of security safeguards based on the risk assessment; and
- Security awareness training programs.

The University has completed a business impact analysis and a risk assessment, and has implemented security safeguards based on that assessment. The University has also completed a security awareness and training program and drafted a written policy. However, management has not given the policy its approval, made it mandatory, and documented the policy as part of the University's written policies and procedures. As a result of this weakness, there is the possibility that risks exist for which adequate security safeguards have not been implemented.

In addition, the University has not completed a contingency management plan to provide for prompt restoration of critical systems in the event of a disaster. The plan needs to include all critical systems at the University. The University is contracting with El Camino in Dallas, Texas, for providing the use of a hot-site in the event of a disaster. To complete the process, staff must develop a final plan, which management should review and approve.

The University needs to adopt a security awareness and training program as part of its written policies and procedures. In order to complete the contingency management plan, the University should finalize the plan for procuring the services of a "hot site." Once completed, the University should test and review the contingency management plans on a periodic basis.

Develop a Business Plan for Auxiliary Enterprises

The University needs to complete development of a formal business plan for Auxiliary Enterprises. This plan needs to address the long-term strategies that the University plans to follow and should address the following issues:

- Which individual enterprises will remain self-sustaining and those that will support other activities;
- What philosophy management should follow in proposing fees;
- What are adequate operating, capital, and maintenance reserve balances, and the uses of these balances;
- Who has financial oversight and operational responsibilities;
- Under what circumstances will management consider both the contracting or internal operation of an enterprise; and
- What should management consider when determining if the University should add or abolish an enterprise.

The University does not have any operating or financial problems with its auxiliary enterprises. However, changes in the Commonwealth's objectives for setting fees and the use of reserves for needed projects indicate the need for a long-term business plan. In addition, the State Council of Higher Education has directed the University to reexamine its methodology for allocating indirect costs to the auxiliary enterprises. The University has developed a work plan that strategizes an approach to developing a cost allocation method.

The University is recruiting for a cost accountant, although their initial recruitment attempts have been unsuccessful. They have hired an Associate Vice President for Facilities and Services. The cost accountant, once hired, and the Associate Vice President for Facilities and Services will lead a complete, comprehensive review of auxiliary enterprises and help develop long-term strategies, policies, and procedures. The University completed a business plan draft in fiscal year 1999 for two of the six Auxiliary Enterprise units. Upon completing and approving these plans, the University intends to use these documents as a guide for other units in completing a formal business plan for all Auxiliary Enterprises, which should occur in the next fiscal year. The University should continue its efforts to follow through with these plans.

Reconcile Financial Aid Programs

General Accounting did not reconcile all financial aid programs between the financial aid, student accounts receivable, and general ledger systems on a monthly basis. The University only completed year-end reconciliations.

Management should require monthly reconciliations for all financial aid programs to determine that amounts on the various accounting systems properly reflect disbursements and to facilitate adequate monitoring of financial aid funds.

COMPLIANCE MATTER

Establish Refund Policy for Unofficial Withdrawals

The University has not implemented procedures to establish a withdrawal date and issue refunds for unofficial withdrawals by students receiving financial aid.

The 1997-98 Federal Student Financial Aid Handbook, Chapter 3, Section 4: Refunds and Repayments, states that: "Participating SFA schools are expected to monitor student attendance for the purpose of determining a withdrawal date in case of unofficial withdrawal. The school must demonstrate that the student has remained in academic attendance through a specified point in time. The school's determination must be based on an event that the school routinely monitors and must be confirmed by an employee of the school. If these conditions are met, the following are acceptable forms of such documentation: exams, records of attendance, tutorials, computer-assisted instruction, counseling, academic advisement, or study groups."

The University should establish procedures for the purposes of determining a withdrawal date for unofficial withdrawals and issue refunds to students receiving student financial aid. During fiscal year 1999, the University began to develop a policy. While the policy is not yet official, implementation in phases began in the Fall 1999 semester and should be complete by the Spring 2000 semester. The University plans for the policy to be official prior to the start of the Fall 2000 semester.

VIRGINIA STATE UNIVERSITY

BALANCE SHEET

As of June 30, 1999

A S S E T S	Current Funds		Loan Funds	Endowment and Similar	Plant Funds	Agency Funds	Total
	Unrestricted	Restricted		Funds			
Cash and cash equivalents (Note 3)	\$ 5,967,123	\$ 1,443,628	\$ 210,876	\$ -	\$ 2,334,509	\$ 1,254,076	\$ 11,210,212
Cash and investments with trustees (Note 3)	2,620,588	478,322	-	4,334,163	889,527	-	8,322,600
Investments held with the Treasurer of VA (Note 3)	446,129	-	-	-	-	-	446,129
Appropriations available	-	621,316	-	-	6,410,260	-	7,031,576
Accounts and loans receivable (Net of allowance for doubtful accounts of \$1,625,448) (Note 4)	819,689	1,941,762	862,111	-	58	-	3,623,620
Interest receivable	-	5,066	-	3,341	-	-	8,407
Due from other funds (Note 5)	698,035	115,579	-	48,001	89,257	-	950,872
Inventories	152,754	14,746	-	-	-	-	167,500
Prepaid expense	-	-	-	-	19,655	-	19,655
Investment in plant (Note 4)	-	-	-	-	132,743,670	-	132,743,670
Other assets	-	-	-	-	65,341	-	65,341
Total assets	\$ 10,704,318	\$ 4,620,419	\$ 1,072,987	\$ 4,385,505	\$ 142,552,277	\$ 1,254,076	\$ 164,589,582
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 3,103,742	\$ 423,286	\$ 10,775	\$ -	\$ 279,743	\$ -	\$ 3,817,546
Accrued compensated absences	1,808,122	346,839	-	-	-	-	2,154,961
Deferred revenue	751,582	1,887,030	-	-	-	-	2,638,612
Advance from the Treasurer of Virginia	7,000	-	-	-	-	-	7,000
Due to other funds (Note 5)	252,837	698,035	-	-	-	-	950,872
Deposits pending distribution	27,134	-	-	-	-	-	27,134
Credit balances - Student accounts	316,847	-	-	-	-	-	316,847
Obligations under securities lending (Note 3)	446,129	-	-	-	-	-	446,129
Interest payable	-	-	-	-	89,257	-	89,257
Retainage payable (Note 6)	-	-	-	-	149,572	-	149,572
Bonds payable (Note 7)	-	-	-	-	9,441,583	-	9,441,583
Notes payable (Note 7)	-	-	-	-	2,908,604	-	2,908,604
Capital lease obligation (Note 7)	-	-	-	-	1,833,343	-	1,833,343
Installment purchases (Note 7)	-	-	-	-	510,118	-	510,118
Other liabilities	-	1,862	-	-	2,007	1,254,076	1,257,945
Total liabilities	6,713,393	3,357,052	10,775	-	15,214,227	1,254,076	26,549,523
Fund balances:							
Unrestricted current funds - Undesignated	495,094	-	-	-	-	-	495,094
Unrestricted current funds - Board designated (Note 8)	3,212,830	-	-	-	-	-	3,212,830
Unrestricted current funds - HUD loan reserve (Note 8)	283,001	-	-	-	-	-	283,001
Restricted current funds	-	1,263,367	-	-	-	-	1,263,367
Loan funds, U.S. Government grants	-	-	723,945	-	-	-	723,945
Loan funds, University - Restricted	-	-	338,267	-	-	-	338,267
Endowment	-	-	-	2,297,557	-	-	2,297,557
Quasi-endowment - Unrestricted	-	-	-	320,238	-	-	320,238
Quasi-endowment - Restricted	-	-	-	1,767,710	-	-	1,767,710
Unexpended plant funds - Unrestricted	-	-	-	-	36,678	-	36,678
Renewals and replacements - Unrestricted	-	-	-	-	9,103,694	-	9,103,694
Retirement of indebtedness - Unrestricted	-	-	-	-	43,413	-	43,413
Net investment in plant - Unrestricted	-	-	-	-	118,154,265	-	118,154,265
Total fund balances	3,990,925	1,263,367	1,062,212	4,385,505	127,338,050	-	138,040,059
Total liabilities and fund balances	\$ 10,704,318	\$ 4,620,419	\$ 1,072,987	\$ 4,385,505	\$ 142,552,277	\$ 1,254,076	\$ 164,589,582

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 1999

	Current Funds		Loan Funds
	Unrestricted	Restricted	
Revenues and other additions:			
Unrestricted current funds revenue	\$ 49,743,230	\$ -	\$ -
State appropriations	-	2,946,199	-
Federal grants and contracts	-	27,478,676	-
State grants and contracts	-	825,578	-
Local grants and contracts	-	40,200	-
Private gifts, grants and contracts	-	432,832	5,000
Endowment income	-	21,759	-
Investment income	-	7,429	8,784
Interest on loans receivable	-	-	52,887
Retirement of indebtedness	-	-	-
Expended for plant facilities (Including \$705,705 charged to current funds)	-	-	-
Other sources	-	-	105,124
Total revenues and other additions	49,743,230	31,752,673	171,795
Expenditures and other deductions:			
Educational and general expenditures	33,445,045	30,851,222	-
Auxiliary enterprise expenditures	12,260,145	225,735	-
Indirect costs recovered	-	261,209	-
Administrative costs	-	-	19,695
Loan cancellations	-	-	8,246
Expended for plant facilities (Including non-capitalized expenditures of \$300,940)	-	-	-
Retirement of indebtedness	-	-	-
Interest on indebtedness	-	-	-
Retirement of plant facilities	-	-	-
Other	-	-	2,600
Total expenditures and other deductions	45,705,190	31,338,166	30,541
Transfers among funds - Additions/(Deductions):			
Operating transfer out to primary government	(18,805)	-	-
Mandatory - debt service	(1,566,048)	-	-
Nonmandatory	128,337	139,646	-
Total transfers among funds	(1,456,516)	139,646	-
Net increase (decrease) for the year	2,581,524	554,153	141,254
Fund balances at beginning of year	1,409,401	709,214	920,958
Fund balances at end of year	\$ 3,990,925	\$ 1,263,367	\$ 1,062,212

The accompanying Notes to Financial Statements are an integral part of this statement.

Endowment and Similar Funds	Plant Funds			
	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	7,105,209	603,399	20,061
-	-	-	-	-
-	-	-	-	-
-	-	50,000	-	-
134,913	-	88,799	-	-
20,261	-	-	-	-
1,057,929	-	110,313	-	-
-	-	-	-	-
-	-	-	-	1,477,263
-	-	-	-	3,552,805
-	-	514,873	-	-
1,213,103	-	7,869,194	603,399	5,050,129
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	95,444	3,052,596	-	-
-	-	-	1,477,263	-
-	-	-	703,906	-
-	-	-	-	694,327
-	-	-	-	-
-	95,444	3,052,596	2,181,169	694,327
-	-	-	-	-
-	-	-	1,595,406	(29,358)
(883,109)	-	1,661,126	(1,000)	(1,045,000)
(883,109)	-	1,661,126	1,594,406	(1,074,358)
329,994	(95,444)	6,477,724	16,636	3,281,444
4,055,511	132,122	2,625,970	26,777	114,872,821
\$ 4,385,505	\$ 36,678	\$ 9,103,694	\$ 43,413	\$ 118,154,265

VIRGINIA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 1999

	Unrestricted	Restricted	Total
Revenues:			
Student tuition and fees	\$ 13,149,157	\$ -	\$ 13,149,157
State appropriations (Note 9)	20,184,406	2,324,883	22,509,289
Federal grants and contracts	261,209	27,424,276	27,685,485
State grants and contracts	-	825,578	825,578
Local grants and contracts	-	40,200	40,200
Private gifts, grants and contracts	201,815	432,832	634,647
Sales and services of auxiliary enterprises	15,100,731	-	15,100,731
Sales and services of educational departments	26,496	-	26,496
Endowment income	51,687	21,759	73,446
Investment income	180,537	7,429	187,966
Proceeds-Securities lending	11,014	-	11,014
Other sources	576,178	-	576,178
Total current revenues	49,743,230	31,076,957	80,820,187
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	13,973,780	242,938	14,216,718
Research	335,188	2,711,323	3,046,511
Public service	785,037	2,980,259	3,765,296
Academic support	3,150,615	572,082	3,722,697
Student services	2,545,536	506,525	3,052,061
Institutional support	5,091,981	315,397	5,407,378
Operation and maintenance of plant	7,221,561	204,686	7,426,247
Scholarships and fellowships	341,347	23,318,012	23,659,359
Educational and general expenditures	33,445,045	30,851,222	64,296,267
Mandatory transfer for debt service	160,469	-	160,469
Total educational and general	33,605,514	30,851,222	64,456,736
Auxiliary enterprises:			
Operating expenditures	12,249,579	225,735	12,475,314
Payments-Securities lending	10,566	-	10,566
Mandatory transfers for debt service	1,405,579	-	1,405,579
Total auxiliary enterprises	13,665,724	225,735	13,891,459
Total expenditures and mandatory transfers	47,271,238	31,076,957	78,348,195
Other transfers and additions/(deductions):			
Excess of restricted receipts over transfers to revenue	-	414,507	414,507
Operating transfers to primary government	(18,805)	-	(18,805)
Nonmandatory transfers	128,337	139,646	267,983
Net increase in fund balances	\$ 2,581,524	\$ 554,153	\$ 3,135,677

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Virginia State University, founded in 1882, is one of two land grant universities in the state, having been so designated in 1920. As a land grant institution, the University engages in natural resources-related research projects and agricultural extension services. The institution attained university status in 1979. The University offers instructional programs at the graduate and undergraduate levels in science, education, humanities, social science, and business. The University's stated mission is to prepare students to advance intellectually, socially, economically, and politically so they and the University will make significant contributions to the enhancement of society.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. Since the University is a component unit of the Commonwealth of Virginia, it is included in the Comprehensive Annual Financial Report of the Commonwealth.

B. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds that may be used for the activities or objectives specified. Separate accounts are maintained for each fund. Funds having similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated for specific purposes by action of the Board of Visitors. Externally-restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds of which the governing board retains full control to use in achieving any of its institutional purposes.

Unrestricted revenue is accounted for in the Current Unrestricted Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Revenues from current restricted funds are recognized when expenditures are incurred for current operating purposes.

Endowment and similar funds record the usage of income from moneys subject to the restrictions of gift instruments requiring, in perpetuity, that the principal be invested and income only be utilized. Certain funds within this classification differ from regular endowments in that any portion of the funds may be expended at the discretion of the Board of Visitors.

C. Basis of Accounting

The financial statements of the University have been prepared on the accrual basis, except for depreciation expenses relating to capitalized fixed assets, which are not recorded. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

D. Investments

Investments are recorded at fair market value at June 30, 1999.

E. Plant Funds

Plant assets consisting of land, building, improvements, equipment, and construction in progress are stated at appraised historical cost or actual cost where determinable. Library books are valued at replacement cost as determined by the State Council of Higher Education. Equipment expenditures are capitalized when the acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Expenditures for construction in progress are capitalized as incurred and reflected in net investment in plant. No provision is made in the accounts for depreciation of plant assets. Current funds used to finance plant assets are accounted for as expenditures for the normal replacement of movable equipment and library books; mandatory transfers for required provisions for debt service; and transfers of a non-mandatory nature for all other cases.

F. Inventory

Inventory is valued at the lower of cost or market. The inventory held by the University consists of supplies held for consumption.

G. Deferred Revenue

Deferred revenue represents moneys received, but not earned as of June 30, 1999. In the Current Unrestricted Fund, deferred revenue represents student tuition and fees received in advance of the academic term. In the Current Restricted Fund, deferred revenue represents federal funds received, but not spent.

H. Accrued Compensated Absences

The amount of leave earned, but not taken by University employees is recorded as a liability on the balance sheet. The amount reflects, as of June 30, 1999, all unused vacation leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

2. AFFILIATED ORGANIZATION

The Virginia State University Foundation is separately incorporated and managed by its own Board. Assets and liabilities of the Foundation are not included in these statements. The Foundation was organized for fund raising activities, which support the University.

The following is a condensed summary of the financial position of the Foundation as of June 30, 1999. This information is not audited.

ASSETS

Cash and other assets	\$ 655,686
Other receivables	6,133
Investment	<u>2,955,371</u>
Total assets	<u>\$ 3,617,190</u>

LIABILITIES AND NET ASSETS

Total liabilities	\$ 50,638
Total net assets	<u>3,566,552</u>
Total liabilities and net assets	<u>\$ 3,617,190</u>

3. CASH AND INVESTMENTS

All state funds of the University are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash" on the balance sheet and is not categorized as to credit risk. Cash deposits held by the University are maintained in accounts covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. At June 30, 1999, the carrying amount of cash was \$8,493,595. In addition, money market funds held as overnight investments totaling \$2,716,617 at June 30, 1999, are included in Cash and Cash Equivalents.

Statutes authorize the investment of funds held by the University in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds comprised of investments, which are otherwise legal investments of the University.

The University's investments are categorized below to give an indication of the level of credit risk assumed by the University at June 30, 1999. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments, which are insured or registered or for which the securities are held by the University or its safekeeping agent in the University's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department

or safekeeping agent in the University's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the University's name.

The composition and categorization of investments held by the University at June 30, 1999, follows:

<u>Description</u>	<u>Category 1</u>	<u>Cost</u>	<u>Market Value</u>
Investments:			
U.S. Government bonds	\$ 1,686,289	\$ 1,686,289	\$ 1,690,243
Corporate bonds	1,939	1,939	3,088
Corporate stock	2,212,591	2,212,591	5,229,960
State non-arbitrage program	889,527	889,527	889,527
Money market funds	<u>509,782</u>	<u>509,782</u>	<u>509,782</u>
Total investments	<u>\$ 5,300,128</u>	<u>\$ 5,300,128</u>	<u>\$ 8,322,600</u>

Investments held by the Treasurer of Virginia represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

4. BALANCE SHEET DETAILS

Accounts Receivable

Unrestricted current funds:

Student and other receivables (less allowance of \$128,637) \$ 819,689

Restricted current funds:

Grants and contracts and other receivables 1,941,762

Loan funds:

Notes receivable (less allowance of \$1,496,811) 862,111

Plant funds – Retirement of Indebtedness:

Accounts receivable 58

Total receivables \$ 3,623,620

Investment in Plant

Land	\$ 267,084
Improvements	8,260,834
Buildings	78,184,463
Equipment	18,255,573
Library Books	12,027,634
Construction in Progress	<u>15,748,082</u>
Total investment in plant	<u><u>\$132,743,670</u></u>

5. DUE TO/FROM OTHER FUNDS

Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained. Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered.

<u>Receivable Fund</u>	<u>Payable Fund</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Unrestricted	\$ -	\$ 698,035	\$ 698,035
Restricted	115,579	-	115,579
Plant	89,257	-	89,257
Endowment	<u>48,001</u>	<u>-</u>	<u>48,001</u>
Total	<u><u>\$ 252,837</u></u>	<u><u>\$ 698,035</u></u>	<u><u>\$ 950,872</u></u>

6. RETAINAGE PAYABLE

At June 30, 1999, \$149,572 was held by Virginia State University as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the projects.

7. LONG-TERM INDEBTEDNESS

Long-Term Indebtedness at June 30, 1999, consists of the following:

	<u>Interest Rates</u>	<u>Maturity</u>	<u>Total</u>
General Obligation Revenue Bonds:			
Langston Hall Project, Series 1995	4.60-5.10%	2010	\$2,085,000
Foster Hall Project, Series 1995	4.60-5.10%	2010	1,870,000
Dorm Renovation Project, Series 1995	4.60-5.10%	2010	2,175,000
Jones Dining Hall Project, Series 1996	5.375%	2016	2,270,000
Jones Dining Hall Project, Series 1998	4.67%	2018	<u>1,000,000</u>
Total bonds payable			<u><u>\$9,400,000</u></u>

A summary of future principal requirements of long-term debt as of June 30, 1999, follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2000	\$ 560,000
2001	585,000
2002	610,000
2003	645,000
2004	670,000
Later years	<u>6,330,000</u>
Total principal payments	9,400,000
Add:	
Unamortized premium	<u>41,583</u>
Total	<u>\$ 9,441,583</u>

Loan From Department of Housing and Urban Development (HUD)

The University entered into a loan agreement with HUD in 1989 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest per annum and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. At June 30, 1999, the outstanding balance of the loan was \$2,908,604.

A summary of future principal and interest requirements as of June 30, 1999, follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 90,287	\$ 87,467	\$ 177,754
2001	93,016	84,738	177,754
2002	95,828	81,926	177,754
2003	98,724	79,030	177,754
2004	101,708	76,046	177,754
Later years	<u>2,429,041</u>	<u>741,173</u>	<u>3,170,214</u>
Total	<u>\$2,908,604</u>	<u>\$1,150,380</u>	<u>\$4,058,984</u>

Higher Education Equipment Trust Fund Capital Lease Obligation

The University is committed under capital lease agreements with the Virginia College Building Authority (VCBA) in the combined principal amount of \$1,833,343. The agreements, entered in 1994, 1995, 1996, and 1997 will mature in fiscal years 1999, 2001, and 2002, respectively, with interest rates ranging from 3.50 percent to 5.35 percent. Under the terms of the leases, the University is authorized to purchase equipment from an approved list of equipment in an amount not to exceed the principal amount of each lease. Payment of such

purchases are to be reimbursed to the University or directly paid by the VCBA from the VCBA Equipment Trust Fund financed from the proceeds of bonds issued by the VCBA for such purposes. The General Assembly has appropriated from the General Fund of the Commonwealth amounts sufficient to repay principal and interest requirements under the lease agreements. The University is also committed under other capital leases for equipment.

A summary of future principal and interest requirements as of June 30, 1999, follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2000	\$ 595,852
2001	631,935
2002	544,940
2003	<u>248,507</u>
Total principal and interest	2,021,234
Less:	
Interest cost	<u>187,891</u>
Total	<u>\$1,833,343</u>

Installment Purchases

The University has entered into installment purchase contracts to finance the acquisition of copiers and a mainframe. The length of the purchase agreements is for three years and the interest rate ranges from 4.0 to 5.1 percent. Principal and interest payments of these commitments for fiscal years subsequent to June 30, 1999, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$244,587	\$ 17,147	\$261,734
2001	215,182	6,914	222,096
2002	<u>50,349</u>	<u>482</u>	<u>50,831</u>
Total	<u>\$510,118</u>	<u>\$24,543</u>	<u>\$534,661</u>

8. FUND BALANCES – CURRENT FUNDS-UNRESTRICTED

As of June 30, 1999, unrestricted fund balances totaling \$3,212,830 has been designated by the Board of Visitors for plant replacement, expansion, and improvement. In addition \$283,001 is a required reserve to the Housing and Urban Development loan.

9. STATE APPROPRIATIONS – CURRENT FUNDS – UNRESTRICTED

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the

biennium, unexpended appropriations that have not been approved for re-appropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

The following is a summary of state appropriations received by the University for the year ended June 30, 1999.

	<u>Current Unrestricted</u>
Original appropriation	\$20,338,064
Adjustments:	
Central account distribution	40,469
Transfer fund to James Madison University	(8,500)
Reappropriation	553,415
Reversion to the General Fund of the Commonwealth	<u>(739,042)</u>
Adjusted appropriations	<u>\$20,184,406</u>

10. DIRECT STUDENT LOAN PROGRAM

On July 1, 1995, the University entered the Federal Direct Student Loan Program. This program replaces the Federal Stafford and PLUS Loan Programs, which involve a private lender/bank or a guarantee agency. Under the Federal Direct Student Loan Program, students borrow directly from the Federal government with the University acting as the processing and delivery point of the funds. At June 30, 1999, federal grant and contract revenue and expenditures for scholarships and fellowships included \$15,465,083 related to this program.

11. COMMITMENTS

Operating Leases

The University is committed under operating leases for equipment. In most cases, the University expects that in the normal course of business, similar leases will replace these leases. Rental expense for the fiscal year ended June 30, 1999, was \$29,184. The University has, as of June 30, 1999, the following total future minimum rental payments:

<u>Year</u>	<u>Amount</u>
2000	\$ 40,128
2001	40,128
2002	<u>20,064</u>
Total	<u>\$100,320</u>

12. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Employees of the University are employees of the Commonwealth. The employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not Virginia State University, has overall responsibility for contributions to these plans.

Full-time faculty and certain administrative staff participate in optional retirement plans. These retirement annuity programs are through TIAA/CREF, VALIC, Fidelity Investment Insurance Companies, and T. Rowe Price rather than VRS. These are fixed-contribution programs where the retirement benefits received are based upon the employer's 5.4 percent and employee's 5 percent contributions (all of which are paid by the University), plus interest and dividends.

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee's contributions. Contributions to the programs were calculated using base salary amount of \$3,893,923. Total pension costs under these plans were approximately \$404,968 for the year ended June 30, 1999.

13. STATE STUDENT LOANS

The University makes loans to qualified students from its Commonwealth of Virginia Student Loan Fund. At June 30, 1999, the cash balance of the State Student Loan Fund was \$54,143.

14. SUBSEQUENT EVENTS

In October 1999, the University extended its contract for an additional five years with Sodexo Marriott Services, Incorporated, for providing a wide range of food services to students, faculty, and staff. As part of this extension, Sodexo Marriott agreed to establish Quick Stop dining services for students, faculty, and staff and to carry out related and other dining services renovations. Marriott has committed to make available to the University the sum of \$360,000, excluding interest, to be repaid at an amount equal to \$72,000 annually for five years for completion of selected projects.

15. CONTINGENT LIABILITIES

Federal programs in which the University participates were included in the Commonwealth of Virginia's Statewide Single Audit and audited in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of Circular A-133, all major programs were tested for compliance with applicable grant requirements. The provisions of this Circular do not limit the authority of federal agencies or other federal audit officials to make or contract for audits and evaluations of federal financial assistance programs. As a result, final expenditure reports of grants and contracts submitted to granting agencies in current and prior years are subject to audit and adjustment by such agencies.

The University's Federal Perkins Loan Program's cohort default rate exceeded the maximum level of 30 percent set by the U.S. Department of Education (DOE) in previous years. As a result, the

University received provisional certification from the DOE for participation in the Title IV Student Financial Aid Programs for fiscal years 1997 through 1999. Under provisional certification, the University is allowed to operate as if it had full certification; however, it cannot expand its current program. During the period of provisional certification, the participation of the University will be subject to revocation for cause. Also, it is unlikely the University will receive an additional federal capital contribution for the Federal Perkins Loan Program during the provisional certification period. The University will not be denied participation in the Title IV Program solely due to a high default rate. As of June 30, 1999, the cohort default rate is 23.52 percent, down from 44.66 percent as of June 30, 1998.

The University has been a defendant in several legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

16. SURETY BOND

The University's employees were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management, with liability limits of \$500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA STATE UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 1999

	Food Services	Bookstore	Residential Facilities	Parking and Transportation	Telecom- munication	Student Health Services	Student Union and Recreational Facilities	Other Auxiliary Functions	Intercollegiate Athletics	Reserves	Total
Revenues:											
Student fees	\$3,912,331	\$ -	\$5,174,872	\$ 192,654	\$ -	\$ 374,420	\$ 862,627	\$ 529,039	\$1,281,564	\$ 894,300	\$ 13,221,807
Sales and service	(27,937)	141,333	150,384	320,229	130,862	15,700	5,077	567,790	333,284	-	1,636,722
Interest revenue	-	-	-	-	-	-	-	238,328	-	-	238,328
Rental Fees	-	-	-	-	-	-	14,888	-	-	-	14,888
Total revenues	3,884,394	141,333	5,325,256	512,883	130,862	390,120	882,592	1,335,157	1,614,848	894,300	15,111,745
Operating expenditures:											
Personal services	-	-	556,447	57,966	58,948	201,119	366,431	800,867	496,482	-	2,538,260
Employee benefits	(181)	(20)	111,672	18,292	13,486	46,967	75,639	172,567	84,874	-	523,296
Contractual services	2,562,235	1,463	992,766	80,336	178,443	54,110	183,080	267,273	344,393	-	4,664,099
Supplies and materials	10,603	303	48,981	13,640	1,724	9,706	25,501	111,350	116,194	-	338,002
Property and improvement	-	-	-	15,537	-	-	3,045	483	(30)	-	19,035
Equipment	41,403	3,496	485,852	440	7,169	10,075	40,173	(9,194)	5,939	-	585,353
Current charges and obligations	11,244	-	18,522	2,161	6,422	-	8,332	26,106	59,705	-	132,492
Scholarships	-	2,300	414,483	-	-	-	57,523	332,851	392,746	-	1,199,903
Transfer payments	-	-	-	-	-	-	405	-	1,503	-	1,908
Unemployment compensation	15	-	9,577	-	-	-	-	6,751	6,326	-	22,669
Indirect cost	613,188	1,498	603,895	60,476	55,986	77,318	170,323	304,511	337,367	-	2,224,562
Miscellaneous	-	-	-	-	-	-	-	10,566	-	-	10,566
Total operating expenses	3,238,507	9,040	3,242,195	248,848	322,178	399,295	930,452	2,024,131	1,845,499	-	12,260,145
Excess (deficiency) of revenues over (under) operating expenditures before transfers	645,887	132,293	2,083,061	264,035	(191,316)	(9,175)	(47,860)	(688,974)	(230,651)	894,300	2,851,600
Transfers to other funds:											
Mandatory transfers - Debt service	(86,606)	-	(176,185)	(56,401)	-	-	-	(63,771)	-	(1,022,616)	(1,405,579)
Nonmandatory transfers	(366,819)	(82,658)	(1,605,504)	-	361,176	-	449,970	502,561	(18,000)	367,193	(392,081)
Net increase (decrease) for the year	192,462	49,635	301,372	207,634	169,860	(9,175)	402,110	(250,184)	(248,651)	238,877	1,053,940
Fund balances (deficits) at beginning of year	125,265	116,172	(6,157)	23,457	(316,970)	255,260	(125,494)	128,638	111,022	3,256,954	3,568,148
Fund balances (deficits) at end of year	\$ 317,727	\$ 165,807	\$ 295,215	\$ 231,091	\$ (147,110)	\$ 246,085	\$ 276,616	\$ (121,546)	\$ (137,629)	\$3,495,831	\$ 4,622,088

Note: Payment for Securities Lending Transactions in the amount of \$10,566 and Proceeds from Securities Lending Transactions in the amount of \$11,014 are included here in the "Other Auxiliary Functions" category. These are shown separately on the Statement of Current Fund Revenues, Expenditures, and Other Changes.

VIRGINIA STATE UNIVERSITY
Petersburg, Virginia

June 30, 1999

BOARD OF VISITORS

Ronald C. Johnson, Rector

Elwood L. Bland, Vice Rector

Garland L. Bigley, Secretary

Mary P. Adams	Glen N. Jones
Thomas W. Darby	Freeman McCullers
Adele Johnson	T.W. Taylor
Jonathan F. Johnson	Gary R. Thomson

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Eddie N. Moore, Jr., President

Earl G. Yarborough, Provost and Vice President for Academic Affairs

Edward J. Mazur, Vice President for Administration and Finance

Claud Flythe, Chief of Staff and Vice President for Student Affairs